

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )

Federal - State Joint Board on )  
Universal Service )

CC Docket No. 96 - 45

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REPLY COMMENTS OF  
LINCOLN TELEPHONE AND TELEGRAPH COMPANY

The Lincoln Telephone and Telegraph Company ("Lincoln"), by its attorneys, respectfully submits the following statements in reply to the comments filed in the above referenced proceeding.

Lincoln has an operating territory in the 958 LATA, which lies primarily in southeastern Nebraska, with a few subscribers in Kansas and Iowa. Lincoln is a Tier 1 carrier with over 250,000 access lines in service.

The Telecommunications Act of 1996 ("Act") presents the Federal Communications Commission ("Commission"), the telecommunications industry, and others an opportunity to reevaluate all that universal service encompasses.

History has shown us that the Commission and industry have worked diligently to ensure the public just and reasonable access to phone service. Under the scenarios of local exchange companies and interexchange carriers, these support mechanisms worked well.

With the advent of competition, deregulation, and innovative technologies, both old and new players with new services have entered the telecommunications arena. For these reasons, the Congress and President of the United States of America have seen fit to legislate that the

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Commission examine universal service and take the necessary steps to facilitate the ideas and effectuate the statutory mandates of the Act.

Upon establishing a Joint Board on Universal Service, the Commission has issued a Notice of Proposed Rule Making ("NPRM") seeking comments on the new requirements for universal service as contained in the Act. The comments have been many and varied. Lincoln wishes to state its support of several comments and express its concerns on some of the concepts presented. Lincoln's reply is directed at limited positions of the comments and should not be interpreted as an attempt to endorse or dismiss any entity's comments in their entirety.

The first and foremost concept brought forth in this proceeding is stated by U S West. This is the need for LECs to "re-balance their rates to remove implicit support from their rate structures and set rates for services to customers closer to the cost of providing service."<sup>1</sup> This includes services for toll, access, business, and residential. If one of the many goals of the Act is to promote and encourage competition, prices without implicit subsidies must be pursued. This cannot be achieved if implicit support mechanisms artificially inflate the prices providers wish to charge.

Lincoln agrees with AT&T that some of these implicit support mechanisms include the Universal Service Fund (USF) and Lifeline surcharges, Carrier Common Line (CCL) charges,

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<sup>1</sup> See Comments of U S West, Inc., April 12, 1996, pp. ii, in response to CC Docket No. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

Long Term Support (LTS) and Dial Equipment Minutes (DEM) weighting.<sup>2</sup>

Present rules require exchange carriers to recover a portion of their loop costs through CCL rates. CCL rates recover non-traffic sensitive costs on a traffic sensitive basis. This creates uneconomic incentives for interexchange carriers to bypass LEC networks and is an example where Commission rules have distorted the marketplace and prevented competition from allocating services to the most efficient provider. This seems to be in direct confrontation with the Act if one of its goals is to promote competition. If rate re-balancing can be achieved, high increases in the subscriber line charge (SLC) would not be necessary and funding needed for the replacement of CCL charges and their state equivalents will be lowered.

Not only do current rules establishing rates encourage uneconomic competition for those that fund universal service and discourage competition for those that receive the subsidies, but as Bell Atlantic states in its comments, present USF funding mechanisms do not seem to promote universal efficiency. Bell Atlantic states "current USF rules encourage the sale of high-cost exchanges by large LECs whose overall study area is sufficiently low-cost that they do not qualify for universal service funds. The smaller LECs acquiring these exchanges have higher average operating per-loop costs within their study area. As a result, these exchanges have become eligible for USF subsidies, even though their operating costs have not increased."<sup>3</sup> Lincoln shares this concern. With the number of

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<sup>2</sup> See Comments of AT&T Corp., April 12, 1996, pp. 3, in response to CC Docket No. 96-45, Notice of Proposed Rulemaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

<sup>3</sup> See Comments of Bell Atlantic, April 12, 1996, pp. 9, in response to CC Docket No. 96-45, Notice of Proposed Rulemaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

small exchanges being sold by large LECs to smaller LECs increasing everyday, the potential for an ever increasing USF fund is growing. Many of these sales have exhibited to the FCC that the increase to the USF Fund would be minimal, but when the number of such transactions keeps increasing the likelihood of a run away fund also increases.

Bell Atlantic's statement that DEM weighting should be revisited<sup>4</sup> is an idea supported by Lincoln. A blanket support mechanism built into the rate structure is not an explicit support mechanism as required by the Act. Currently under USF rules, carriers must prove that their loop costs are above the national average. They should also be able to provide documentation that their specific companies' switching costs are substantially higher than the national average. However, Lincoln questions the need to subsidize any switching costs. Switching costs represent a service. Lincoln does not believe that services should be subsidized, only access to those services.

In its comments, ICORE makes the statement that "In addition, most smaller LECs still charge for local service on a flat rate basis, so local usage is perceived by customers as 'free.'" <sup>5</sup> In reference to ICORE's statement, Lincoln believes that when determining subsidies for any service, it is important to stay focused on the actual cost of providing the service, not the pricing of that service.

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<sup>4</sup> See Comments of Bell Atlantic, April 12, 1996, pp. 4-5, Attachment 1 (Comments of Bell Atlantic, CC Docket No. 80-286, filed Oct. 10, 1995), in response to CC Docket No. 96-45, Notice of Proposed Rulemaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

<sup>5</sup> See Comments of the ICORE Companies, April 12, 1996, pp. 11, in response to CC Docket No. 96-45, Notice of Proposed Rulemaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

Lincoln emphasizes that the functionality and use of the switch should determine the recovery of costs of the switch, not the pricing of the services. With the advent of expanded and innovative services becoming as much a part of local service as any other service, the demands on local switching will grow. A blanket support mechanism such as DEM weighting will be outmoded.

With the number of support mechanisms, explicit or implicit, available under today's rules and regulations, it would seem impossible for the Commission or the states to know how much support any LEC receives and what portion of its actual costs are recovered. This provides an ideal situation for over-compensation of supported universal service costs. This would allow a carrier to use subsidies as a barrier to competition. Lincoln shares Bell Atlantic's concerns that companies should not be receiving subsidies to reduce their rates well below their costs to levels that are far under the national average.<sup>6</sup>

As the Missouri Public Service Commission states,<sup>7</sup> a carrier's other subsidies should be considered to avoid duplication. One possible way to avoid this may be to build upon a portion of the Benchmark Cost Model (BCM) described by U S West.<sup>8</sup> While Lincoln does not support the

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<sup>6</sup> See Comments of Bell Atlantic, April 12, 1996, pp. 6, in response to CC Docket No. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

<sup>7</sup> See Comments of the Missouri Public Service Commission, April 10, 1996, pp. 10, in response to CC Docket No. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

<sup>8</sup> See Comments of U S West, Inc., April 12, 1996, pp. ii, 8-13, in response to CC Docket No. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

Benchmark Cost Model in its entirety, the concept of establishing an affordability benchmark (FFB) would create a common target of support for both the Commission and the States. As presented by U S West, where cost is determined to be above the FFB, high-cost support would be provided by the interstate jurisdiction. To the extent that the price for basic service was below the FFB, such differences would be addressed at the state level.

Lincoln believes a provider's total universal service costs should be compared to the FFB. To reasonably determine the total universal service cost, all implicit support mechanisms would need to be removed from present rules and regulations. All universal costs would need to be identified and placed under a common umbrella. Comparing total universal service costs to an affordability benchmark would help to eliminate duplication of subsidies.

However, this still does not solve the problem of allowing carriers to subsidize rates that are well below the national average as Bell Atlantic brought forth. Lincoln would advise that the universal service rates carriers charge be tied to the amount of universal support they receive. A carrier who is not willing to charge its end users for its universal service costs, less its support subsidies, is demonstrating a lack of necessity for a portion, if not all, of its subsidies.

The Missouri Public Service Commission recommends that universal service support be withheld from carriers that do not provide all core services.<sup>9</sup> AT&T expands on this recommendation to include that to qualify for subsidy payments, the carrier must provide the core services as a basic

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<sup>9</sup> See Comments of the Missouri Public Service Commission, April 10, 1996, pp. 7-8, in response to CC Docket No. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

stand-alone service offering.<sup>10</sup> Lincoln supports both recommendations. Universal services offered only while bundled with other services no longer distinguish themselves as universal service. Lincoln would also recommend that an eligible carrier must publicly offer the universal services, and to the entire universal service area, whether it be Census Block Groups or an entire study area.

Lincoln supports U S West and others who stated the need for a fund supplied by a separate, identifiable assessment on the end-users bill. The assessments would be based on retail end-user revenues, not wholesale telecommunications services. This method complies with the directives in the Act to be explicit. It would also provide a chance for the Commission, the States, and industry to educate the public on universal service, as any telecommunications service provider required to assess the end user will likely want to provide their customers with as much information as possible on the assessments.

Lincoln concurs with U S West, in that, to maximize the discount for schools and libraries, the “menu” of services and access provided must be kept to a minimum.<sup>11</sup> Lincoln believes only access to services, except for core universal services, should be subsidized for these entities.

With over 230 sets of comments from an even larger number of entities, the ideas and methods presented to the Joint Board represent a wide range of options. The Joint Board must not only consider universal service as a concept, but devise a methodology to identify and fund it. This

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<sup>10</sup> See Comments of AT&T Corp., April 12, 1996, pp. 21, in response to CC Docket no. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

<sup>11</sup> See Comments of U S West, Inc., April 12, 1996, pp. 20-21, 23-24, in response to CC Docket No. 96-45, Notice of Proposed RuleMaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service.

method must be fundamentally sound enough not only to promote universal service, but constructed in a manner as not to interfere with the ideals and principles laid forth in other sections of the Telecommunications Act of 1996.

To accomplish this, Lincoln agrees with those entities that believe that the Commission and States must allow incumbent LECs to re-balance their rates for all services. To do this, all implicit subsidies must be removed from current rate development rules.

For the foregoing reasons, Lincoln requests that the Commission accept the reply comments presented herein.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert A. Mazer" with a stylized "IAS" or similar mark at the bottom right.

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